



PRODUCTION TESTING UPDATE –21 AUGUST 2009

Golden Eagle Field Grand County Utah

- **Results of the Spectrascan fracture tracer log indicate categorically that the stimulation of the Ismay Formation in Paradox Basin #2 has not been effective.**
- **The fracture has travelled up the well bore and placed into water bearing zones in the Paradox Formation.**
- **The company is now evaluating options for remedial work.**
- **Operations have shifted temporarily to Paradox Basin #1.**

The Spectralog tracer survey which was run to evaluate the effectiveness of the fracture stimulation of the Ismay Formation quite categorically confirms that the attempt to stimulate the Ismay Formation Gas has not been effective.

The confirmed gas bearing zones extending from 10,336' to 10,392' was perforated over 3 intervals 10,344-48', 10,354-56', and 10,376-83'. Following a series of flow and injection tests a Gel-based fracture comprising 85,700lbs proppant and 1252 barrels of carrier fluid was conducted.

On test the Ismay Formation in Paradox Basin #2 produced gas at upto 1.6MMcf/d. The gas associated with unexpectedly high rates of water production. Evaluation of the gas zone indicates low connate water implying the water produced on test is sourced from a different interval and the fracture has accessed formation water.

The fracture tracer log shows that the fracture has travelled upwards nearly 300' behind the casing to 10,050' with the main placement occurring from 10,136' to 10,212'. Evaluation of this zone indicates it is a porous water bearing zone. The Spectralog shows negligible placement of the fracture in the Ismay Formation gas zone.

Golden State is currently reviewing options to remediate the situation. In the first instance the gas zone needs to be isolated from the overlying water bearing zones by conducting a cement squeeze. Following confirmation that the cement has achieved isolation behind pipe, the company may attempt a second fracture, limited to the lower perforations. An alternative strategy which is currently being reviewed and priced is to place an ultra-short lateral completion horizontally into the productive interval.

Current field operations have now shifted to conducting a test and recompletion of Paradox Basin #1. Current wellhead pressure is 3400 psi. Operations will commence with a pressure gradient run followed by a test flow and build-up.

Richard De Boer
Executive Director

21 August 2009

ABN 39 063 074 635

181 Roberts Road Subiaco Western Australia

Postal: PO Box 616 West Perth 6872 Australia Ph: +61 8 9381 9522 Fax: +61 8 9381 9525

Email: gsr@goldenstate.com.au

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